

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name <b>City of Montague</b>	County <b>Muskegon</b>
Audit Date <b>6/30/05</b>	Opinion Date <b>9/6/05</b>	Date Accountant Report Submitted to State: <b>10/31/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

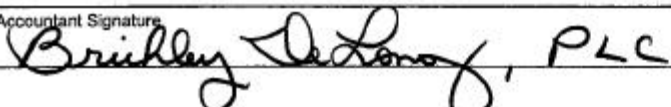
We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Brickley DeLong, PLC</b>			
Street Address <b>500 Terrace Plaza, P.O. Box 999</b>		City <b>Muskegon</b>	State <b>MI</b>
			ZIP <b>49443-0999</b>
Accountant Signature 			Date <b>10/31/05</b>

City of Montague  
Muskegon County, Michigan

**REPORT ON FINANCIAL STATEMENTS**  
(with required supplementary information)

Year ended June 30, 2005

## ELECTED OFFICIALS

## APPOINTED OFFICIALS

City Manager .....	John French
City Clerk.....	Melinda O'Connell
Finance Officer/Treasurer.....	Susanne Krawczyk
Police Chief.....	Robert Rought
Utility Clerk .....	Laurie Robillard
DPW Superintendent .....	Tom Kroll
Administrative Assistant.....	Matt Miller

City of Montague

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This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. This report consists of a series of financial statements for the City of Montague as of June 30, 2005. The City of Montague's basic financial statements are comprised of three components:

1. Governmental-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

### **FINANCIAL HIGHLIGHTS**

At the close of the fiscal year the City of Montague had total government wide (governmental and business-type activities) assets of \$15,149,085 and total liabilities of \$2,304,528 leaving net assets of \$12,844,557. Of this amount, \$3,475,003 (unrestricted net assets) may be used to meet the ongoing obligations in all activities to citizens and creditors.

The largest portion of the net assets of the City is capital assets. Capital assets account for \$10,175,460, or 79% of the total net assets, which primarily consists of water and sewer systems.

Business-type functions had operating income of \$203,248 comprised of Sewer income of \$48,780, Water income of \$92,163, Launch Ramp income of \$15,708 and Campground income of \$46,597. The total net assets in the business-type activities increased by \$513,922. The main reason for this increase was the capital contributed from DuPont and Occidental Chemical.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

#### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, community and economic development, and cultural and recreational activities. The business-type activities of the City include the campground, launch ramp, and water and sewer services.

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, government fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the governmental-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains eleven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund, both of which are considered to be major funds. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary Funds**

The City of Montague has two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, campground, launch ramp and sewer operations. Internal Service Funds are an accounting device used to accumulate and allocate costs of equipment used by other funds. Because this service predominantly benefits governmental rather than business-type functions, it has been included primarily within governmental activities in the governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for Water, Campground, Launch Ramp and Sewer Funds, of which Water and Sewer Funds are major funds. The Internal Service Fund is presented in its own column on the proprietary funds financial statements.

**Fiduciary Funds**

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### City of Montague's Net Assets

Recall that the statement of net assets provides the perspective of the City as a whole. The following table provides a summary of the City's net assets. As of June 30, 2005 the City's net assets from governmental activities totaled \$5,766,165 and \$7,078,392 from business-type activities, a government-wide net asset total of \$12,844,557. As of June 30, 2004, the City's total net assets were \$11,432,808, comprised of \$4,868,338 from governmental activities and \$6,564,470 from business-type activities.

In examining the composition of assets, the reader should note that the amount of governmental activities invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.) are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current assets and other assets	\$ 2,857,769	\$ 2,096,622	\$ 2,115,856	\$ 1,705,241	\$ 4,698,757	\$ 3,392,585
Capital assets	3,334,255	3,304,702	6,841,205	6,607,935	10,450,328	10,321,915
Total assets	6,192,024	5,401,324	8,957,061	8,313,176	15,149,085	13,714,500
Long-term liabilities outstanding	319,348	358,646	1,186,563	1,282,048	1,505,911	1,640,694
Other liabilities	106,511	174,340	692,106	466,658	798,617	640,998
Total liabilities	425,859	532,986	1,878,669	1,748,706	2,304,528	2,281,692
Net assets						
Invested in capital assets, net of related debt	3,054,255	2,978,807	5,556,008	5,241,535	8,610,263	8,220,342
Restricted	759,291	386,308	-	226,489	759,291	612,797
Unrestricted	1,952,619	1,503,223	1,522,384	1,096,446	3,475,003	2,599,669
Total net assets	\$ 5,766,165	\$ 4,868,338	\$ 7,078,392	\$ 6,564,470	\$ 12,844,557	\$ 11,432,808

The City realized a 12.3% increase in net assets, increasing \$1,411,749 from fiscal year 2004 to fiscal year 2005. Several capital grants contributed to the increase, including the Old Channel Trail infrastructure project, township water project and bike trail extension. Also contributing to this increase was growth in property tax revenues, investment income and the sale of land for \$57,717.

**Governmental Activities.** Governmental Activities total assets increased \$790,700 from the 2004 fiscal year. The increase is primarily due to the reclassification of a receivable of approximately \$405,000 to the General Fund previously recorded in the TIFA Fund. Stanton Boulevard, between Water Street and Dicey Street, was removed and reconstructed including curb and gutter, underground storm drainage, and water main replacement. The increase in infrastructure was partially offset by depreciation.

**Business-type Activities.** Total assets in the Business-type Activities increased \$643,885 from the 2004 fiscal year. Restricted assets for debt service in the Water and Sewer Funds increased \$121,270. Capital assets, also, increased due to ongoing water projects, involving the looping of the distribution system in Montague and White River townships as well as the search for an additional production well, that are financed entirely from an escrow fund with monies from DuPont and Occidental Chemical. After years of drilling test wells in over a dozen locations in the immediate City of Montague area, a potential well capable of producing over 500 gallons per minute was located just north of the City in Montague Township, on Ochs Road.

#### City of Montague's Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the statement of activities, which shows the changes in net assets for fiscal year 2005.

A comparison to fiscal year 2004 revenues has also been included. Total revenues in the Governmental Activities decreased \$643,000 from the 2004 fiscal year. The decrease was due to the receipt of an MDOT grant in the 2004 fiscal year for Old Channel Trail reconstruction, and contributions for the Cullen Memorial Little League Fields. Business-type Activities total revenues increased \$264,269 due to the capital contributions from DuPont and Occidental Chemical.

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 344,499	\$ 333,036	\$ 988,277	\$ 1,017,287	\$ 1,332,776	\$ 1,350,323
Operating grants and contributions	246,873	308,975	-	37,011	246,873	345,986
Capital grants and contributions	1,338	778,730	365,414	39,812	366,752	818,542
General revenues						
Property taxes	1,318,709	1,218,684	-	-	1,318,709	1,218,684
Grants and contributions not restricted to specific programs	227,961	230,720	-	-	227,961	230,720
Other	172,853	85,088	31,843	30,155	204,696	115,243
Total revenues	<u>2,312,233</u>	<u>2,955,233</u>	<u>1,385,534</u>	<u>1,124,265</u>	<u>3,697,767</u>	<u>4,079,498</u>
<b>Expenses</b>						
General government	539,263	514,616	-	-	539,263	514,616
Public safety	747,616	694,800	-	-	747,616	694,800
Public works	386,877	318,954	-	-	386,877	318,954
Economic development	2,009	833	-	-	2,009	833
Culture and recreation	144,173	117,882	-	-	144,173	117,882
Interest on long-term debt	18,317	19,457	-	-	18,317	19,457
Sewer	-	-	401,852	417,896	401,852	417,896
Water	-	-	362,332	365,216	362,332	365,216
Boat launching ramp	-	-	24,316	63,320	24,316	63,320
Campground	-	-	43,112	52,689	43,112	52,689
Total expenses	<u>1,838,255</u>	<u>1,666,542</u>	<u>831,612</u>	<u>899,121</u>	<u>2,669,867</u>	<u>2,565,663</u>



**Management's Discussion and Analysis**

Increase in net assets before transfers	\$ 473,978	\$ 1,288,691	\$ 553,922	\$ 225,144	\$ 1,027,900	\$ 1,513,835
Transfers	40,000	45,000	(40,000)	(45,000)	-	-
Change in net assets	513,978	1,333,691	513,922	180,144	1,027,900	1,513,835
Net assets – July 1, restated	5,252,187	3,534,647	6,564,470	6,384,326	11,816,657	9,918,973
Net assets – June 30	\$ 5,766,165	\$ 4,868,338	\$ 7,078,392	\$ 6,564,470	\$ 12,844,557	\$ 11,432,808

**FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As stated earlier in this discussion and analysis, the City of Montague uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2005 fiscal year, the governmental funds reported a combined fund balance of \$2,182,208. Of this amount, \$1,403,571 represents the unreserved fund balance, comprised of \$826,074 in the General Fund, \$234,266 in the Major Streets Fund, and net balance of \$343,231 in other governmental funds. It is necessary to further distinguish between unreserved and reserved fund balance. The unreserved balance represents what is available for spending at the City's discretion. The remainder of the fund balance is reserved to indicate that it is not available for new spending because it has already been committed to advances (\$80,958), debt service (\$7,374), prepaid items (\$87,956), notes receivable (\$97,995), perpetual care (\$167,647) and MFD replacement (\$219,795).

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, garbage collection, boards and commissions, and other minor functions. Fund balance increased in the General Fund by \$184,740. This increase is due in part to increased value in both the ad valorem tax roll and the Industrial Facilities abatement roll resulting in increased revenues of \$94,807. Sales of property in the industrial park amounted to added revenues of \$57,717. Transfers out to other funds went down from \$449,565 in 2003-04 to \$278,500 in 2004-05. Major Streets fund balance increased by \$61,443 due in part to transfers in from General Fund for infrastructure projects.

**Proprietary funds**

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets of the Sewer fund increased by \$46,368 primarily due to a decrease of \$40,998 in interest due on debt and an increase in interest earned on investments. Net assets of the Water fund increased by \$442,915 primarily due to capital contributions of \$365,414 from DuPont and Miller Springs for the construction of the new well and water main expansion in Montague and White River Townships. As in the Sewer fund, the City realized a decrease in interest on debt in the Water fund of \$19,799 due to the refinancing of bonds at lower interest rates.

**Budget Analysis – General Fund**

At various times throughout any budget year, budget amendments are needed to reflect changing financial conditions and changes to financial policy. The revenues budget was increased \$57,717 to reflect the sale of property at the industrial park. Other lines items that were amended upward included \$8,550 for Buildings and Grounds for repairs and maintenance; \$6,460 for Parks for wages; and \$8,000 for Other Governmental Functions for retirement.

There are also various differences between the final amended budget and the actual revenues and expenditures. Actual intergovernmental revenues from the State were higher than budgeted due to State Shared Revenue received was higher than expected. Cemetery expenditures were under budget due to decreases in wages and benefits and equipment rental. Sidewalk repairs budgeted for the Stanton Boulevard project were not deemed necessary. Therefore, the expenditures are under budget. Other governmental functions came in under budget due to a rainy day fund allowed in the budget for unforeseen expenditures which was not utilized during the year.

**Capital Asset Administration**

The City's investment in capital assets for its governmental and business-type activities as of June 30, 2005 totaled \$10,175,460 (net of accumulated depreciation). Investment in capital assets includes infrastructure, land and land improvements, water and sewer systems, buildings, machinery and equipment. Improvements to infrastructure totaling \$175,993 included work on Stanton Boulevard, Dowling Street, Old Channel Trail and the Bike Trail. Water and sewer system improvements totaling \$397,822 included work on Hill Street as well as on the distribution system outside the City in Montague and White River townships.

**Debt Administration**

As of June 30, 2005 the City had outstanding long-term liabilities of \$1,639,275 of which \$147,000 is due within one year.

In the 2004-05 year the City made the final payment of \$10,895 on a five year lease-to-own agreement on a 2001 IHC Model 2554 dump truck. In this same year, the City made a final payment of \$24,761 on its portion of the County's 23M Wastewater Bond.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

**Economic Factors and Next Year's Budget and Rates**

The City of Montague's 2005-06 budget calls for a half mill decrease in the City Operating Millage, from 16.75 mills to 16.25 mills. A portion of this millage reduction was made possible by a successful public vote which resulted in an operation millage for the White Lake Ambulance Authority (WLAA), in effect replacing an annual, weighted formula contribution by the City to the WLAA.

Water and Sewer commodity rates were increased slightly from 2004-05, while daily, weekly, monthly, and seasonal rates at the City's Trailway Campground, and the daily and season permits at the Municipal Boat Launch, remained unchanged. Despite the millage decrease for the second fiscal year in a row, the City anticipates an increase in total property tax collections as the City's taxable value continues to increase due in part to the uncapping of value for homes sold. Other factors that will contribute to this taxable value increase include new homes built in the Woodhaven Estates and Pleasant Grove Estates subdivisions, and substantial new investment at the Hayes Lemmerz Corporation.

The police officers' three-year collective bargaining agreement expired on June 30, 2005, and a four-year CBA was agreed to by Management and the Union on July 1, 2005. Both the City's Union and non-union, full-time employees have begun contributing pre-tax wages toward their health, dental and optical insurance benefits.

Other new and/or ongoing projects the City is planning on advancing during 2005/06 include the completion of the Medbery Bike Trail between Old Channel Trail and Whitbeck Road; the reconstruction of Dowling Street between Water Street and Ferry Street including water main replacement; the reconstruction of Hunt Street between Water Street and Stebbins Street complete with curb and gutter, and also including water main replacement; sidewalk replacement on portions of Knudsen, Church and Williams Street(s) using special assessment; expanded parking and better ingress and egress of the Municipal Boat Launch; continued repairs to both the interior and exterior of City Hall to include furnace and air conditioning replacement; and the transition to a new telephone system with voice mail boxes and automatic pager/cell phone notification to voice mailbox holders.

The City offered its downtown parking lot to developers bidding on the construction of a new Post Office, provided the old Post Office was purchased and demolished and the City's 29 parking places were replaced on City property elsewhere downtown.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-893-1155. Montague City Hall, located at 8778 Ferry Street, Montague, MI 49437, is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

# BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

September 6, 2005

Honorable Mayor and Members  
of the City Council  
City of Montague  
Montague, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague as of and for the year ended June 30, 2005, which collectively comprise the City of Montague's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Montague's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Montague, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information on pages i through vii and 28 and 29, are not a required part of the basic financial statement but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

BRICKLEY DELONG

Honorable Mayor and Members  
of the City Council  
September 6, 2005  
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Montague's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Brickley DeLong, PLC*

City of Montague  
**STATEMENT OF NET ASSETS**  
June 30, 2005

ASSETS

	Primary Government			Component Units	
	Governmental activities	Business-type activities	Total	Downtown Development Authority	Tax Increment Finance Authority
CURRENT ASSETS					
Cash and investments	\$ 1,778,049	\$ 1,260,280	\$ 3,038,329	\$ 634	\$ 232,973
Receivables					
Accounts	11,030	189,122	200,152	-	-
Special assessments	1,028	250	1,278	-	-
Note receivable	503,194	-	503,194	-	-
Internal balances	(2,540)	2,540	-	-	-
Due from other governmental units	123,745	-	123,745	-	-
Inventories	-	42,667	42,667	-	-
Prepaid items	87,956	-	87,956	-	-
Advances to component units	80,958	-	80,958	-	-
Total current assets	2,583,420	1,494,859	4,078,279	634	232,973
NONCURRENT ASSETS					
Restricted assets	272,719	347,759	620,478	-	-
Capital assets, net			-		
Nondepreciable	801,775	73,200	874,975	-	-
Depreciable	2,532,480	6,768,005	9,300,485	-	-
Bond issue costs, net	-	53,767	53,767	-	-
Access rights, net	-	219,471	219,471	-	-
Special assessments	1,630	-	1,630	-	-
Total noncurrent assets	3,608,604	7,462,202	11,070,806	-	-
Total assets	6,192,024	8,957,061	15,149,085	634	232,973

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES					
Accounts payable and accrued liabilities	65,850	99,278	165,128	-	3,196
Due to other governmental units	4,533	-	4,533	-	-
Customer deposits	-	27,234	27,234	-	-
Deferred revenue	-	445,040	445,040	-	-
Bonds, capital leases and contracts, due within one year	35,000	112,000	147,000	-	-
Accrued interest, due within one year	1,128	-	1,128	-	-
Compensated absences, due within one year	-	8,554	8,554	-	-
Total current liabilities	106,511	692,106	798,617	-	3,196
NONCURRENT LIABILITIES					
Bonds, capital leases and contracts, less amounts due within one year	245,000	1,173,197	1,418,197	-	-
Compensated absences, less amounts due within one year	74,348	13,366	87,714	-	-
Advances from primary government	-	-	-	-	80,958
Total noncurrent liabilities	319,348	1,186,563	1,505,911	-	80,958
Total liabilities	425,859	1,878,669	2,304,528	-	84,154
NET ASSETS					
Invested in capital assets, net of related debt	3,054,255	5,556,008	8,610,263	-	-
Restricted for:					
Repairs and replacement	219,795	-	219,795	-	-
Public works	364,475	-	364,475	-	-
Debt service	7,374	-	7,374	-	-
Perpetual care	167,647	-	167,647	-	-
Unrestricted	1,952,619	1,522,384	3,475,003	634	148,819
Total net assets	\$ 5,766,165	\$ 7,078,392	\$ 12,844,557	\$ 634	\$ 148,819

The accompanying notes are an integral part of this statement.

City of Montague  
STATEMENT OF ACTIVITIES  
For the year ended June 30, 2005

Functions/Programs	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets				
		Charges for services	Operating grants and contributions	Capital grants and	Primary Government		Component Units		Total
					Governmental activities	Business-type activities	Downtown Development Authority	Tax Increment Finance Authority	
Primary government									
Governmental activities									
General government	\$ 539,263	\$ 86,201	\$ -	\$ -	\$ (453,062)	\$ -	\$ (453,062)	\$ -	\$ -
Public safety	747,616	167,986	1,335	-	(578,295)	-	(578,295)	-	-
Public works	386,877	88,316	245,538	1,338	(51,685)	-	(51,685)	-	-
Community and economic development	2,009	-	-	-	(2,009)	-	(2,009)	-	-
Culture and recreation	144,173	1,996	-	-	(142,177)	-	(142,177)	-	-
Interest on long-term debt	18,317	-	-	-	(18,317)	-	(18,317)	-	-
Total governmental activities	1,838,255	344,499	246,873	1,338	(1,245,545)	-	(1,245,545)	-	-
Business-type activities									
Sewer	401,852	428,147	-	-	-	26,295	26,295	-	-
Water	362,332	430,522	-	365,414	-	433,604	433,604	-	-
Boat launching ramp	24,316	39,941	-	-	-	15,625	15,625	-	-
Campground	43,112	89,667	-	-	-	46,555	46,555	-	-
Total business-type activities	831,612	988,277	-	365,414	-	522,079	522,079	-	-
Total primary government	\$ 2,669,867	\$ 1,332,776	\$ 246,873	\$ 366,752	(1,245,545)	522,079	(723,466)	-	-
Component units									
Downtown Development Authority	\$ -	\$ -	\$ -	\$ -	-	-	-	-	-
Tax Increment Finance Authority									
Public works	53,378	-	-	5,787	-	-	-	-	(47,591)
Total component units	\$ 53,378	\$ -	\$ -	\$ 5,787	-	-	-	-	(47,591)
General revenues									
Property taxes					1,318,709	-	1,318,709	-	200,024
Grants and contributions not restricted to specific programs					227,961	-	227,961	-	-
Investment income					85,679	30,862	116,541	15	2,680
Other					29,367	500	29,867	-	-
Special item—gain on sale of asset					57,807	481	58,288	-	-
Transfers					40,000	(40,000)	-	-	-
Total general revenues, special items, and transfers					1,759,523	(8,157)	1,751,366	15	202,704
Change in net assets					513,978	513,922	1,027,900	15	155,113
Net assets at July 1, 2004, restated					5,252,187	6,564,470	11,816,657	619	(6,294)
Net assets at June 30, 2005					\$ 5,766,165	\$ 7,078,392	\$ 12,844,557	\$ 634	\$ 148,819

The accompanying notes are an integral part of this statement.

City of Montague  
**BALANCE SHEET**  
Governmental Funds  
June 30, 2005

	General Fund	Major Street	Other governmental funds	Total governmental funds
<b>ASSETS</b>				
Cash and investments	\$ 777,198	\$ 213,244	\$ 593,185	\$ 1,583,627
Receivables				
Special assessments	2,658	-	-	2,658
Note receivable	313,530	-	100,495	414,025
Due from other governmental units	76,129	26,599	21,017	123,745
Prepaid items	77,455	-	10,501	87,956
Advances to component units	80,958	-	-	80,958
Restricted assets	-	-	264,465	264,465
Total assets	<u>\$ 1,327,928</u>	<u>\$ 239,843</u>	<u>\$ 989,663</u>	<u>\$ 2,557,434</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities				
Accounts payable	\$ 7,421	\$ 3,929	\$ 6,521	\$ 17,871
Accrued liabilities	24,020	1,648	19,687	45,355
Due to other governmental units	4,533	-	-	4,533
Deferred revenue	<u>307,467</u>	<u>-</u>	<u>-</u>	<u>307,467</u>
Total liabilities	343,441	5,577	26,208	375,226
Fund balances				
Reserved for:				
Prepaid items	77,455	-	10,501	87,956
Debt service	-	-	7,374	7,374
Advances	80,958	-	-	80,958
Notes receivable	-	-	97,995	97,995
Replacement	-	-	219,795	219,795
Perpetual care	-	-	167,647	167,647
Unreserved:				
Designated				
Special revenue funds	-	-	116,912	116,912
Undesignated				
General fund	826,074	-	-	826,074
Special revenue funds	-	234,266	291,215	525,481
Capital project funds	<u>-</u>	<u>-</u>	<u>52,016</u>	<u>52,016</u>
Total fund balances	<u>984,487</u>	<u>234,266</u>	<u>963,455</u>	<u>2,182,208</u>
Total liabilities and fund balances	<u>\$ 1,327,928</u>	<u>\$ 239,843</u>	<u>\$ 989,663</u>	<u>\$ 2,557,434</u>

The accompanying notes are an integral part of this statement.



City of Montague  
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

June 30, 2005

Total fund balance—governmental funds	\$ 2,182,208
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Amounts reported for governmental activities in the Statement of Net Assets  
are different because:

Other assets used in governmental activities are not financial resources and therefore are  
not reported in the governmental funds.

Interest receivable	100,199
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Capital assets used in governmental activities are not financial resources and  
are not reported in the governmental funds.

Cost of capital assets	\$ 3,822,073	
Accumulated depreciation	<u>(753,420)</u>	3,068,653

Certain revenues that do not provide current financial resources are not  
reported in the governmental funds

307,467

Internal service funds are used by management to charge the costs of equipment used to  
individual funds. The assets and liabilities of the internal service funds are included in  
governmental activities in the statement of net assets.

462,844

Long-term liabilities in governmental activities are not due and payable in the current period  
and are not reported in the governmental funds.

Bonds and contracts payable	(280,000)	
Compensated absences	<u>(74,078)</u>	(354,078)

Accrued interest in governmental activities is not reported in the governmental funds.

(1,128)

Net assets of governmental activities in the Statement of Net Assets

\$ 5,766,165

The accompanying notes are an integral part of this statement.

City of Montague  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
Governmental Funds  
For the year ended June 30, 2005

	General Fund	Major Street	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 1,318,709	\$ -	\$ -	\$ 1,318,709
Licenses and permits	16,054	-	60,960	77,014
Intergovernmental revenues				
Federal	-	-	24,413	24,413
State	235,689	165,134	72,676	473,499
Local	1,335	-	-	1,335
Charges for services	63,183	277	197,752	261,212
Fines and forfeitures	6,363	-	-	6,363
Investment earnings	34,527	1,643	23,874	60,044
Other	80,558	-	3,996	84,554
Total revenues	1,756,418	167,054	383,671	2,307,143
EXPENDITURES				
Current				
General government	469,187	-	-	469,187
Public safety	565,952	-	122,824	688,776
Public works	77,016	111,798	143,030	331,844
Community and economic development	2,009	-	-	2,009
Culture and recreation	120,860	-	-	120,860
Other governmental functions	65,075	11,666	5,447	82,188
Debt service				
Principal	-	-	35,000	35,000
Interest and fees	-	-	17,765	17,765
Capital outlay	37,134	170,147	11,074	218,355
Total expenditures	1,337,233	293,611	335,140	1,965,984
Excess of revenues over (under) expenditures	419,185	(126,557)	48,531	341,159
OTHER FINANCING SOURCES (USES)				
Transfers in	44,055	188,000	105,500	337,555
Transfers out	(278,500)	-	(19,055)	(297,555)
Total other financing sources (uses)	(234,445)	188,000	86,445	40,000
Net change in fund balances	184,740	61,443	134,976	381,159
Fund balances at July 1, 2004	799,747	172,823	828,479	1,801,049
Fund balances at June 30, 2005	\$ 984,487	\$ 234,266	\$ 963,455	\$ 2,182,208

The accompanying notes are an integral part of this statement.

City of Montague  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2005

Net change in fund balances—total governmental funds:		\$ 381,159
Amounts reported for governmental activities in the Statement of Activities are different because:		
Revenue reported in the Statement of Activities that does not provide current financial resources are not reported as revenue in the governmental funds.		(26,263)
Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.		
Depreciation expense	\$ (126,921)	
Capital outlay	<u>218,129</u>	91,208
Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		35,000
Accrued interest on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.		141
Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.		4,299
Governmental funds recognize interest revenues when they are both measurable and available. However, they are recognized for the period they are earned in the Statement of Net Assets.		21,350
Internal service funds are used by management to charge the costs of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities.		<u>7,084</u>
Change in net assets of governmental activities		<u>\$ 513,978</u>

The accompanying notes are an integral part of this statement.

City of Montague  
**STATEMENT OF NET ASSETS**  
Proprietary Funds  
June 30, 2005

	ASSETS				Governmental activities- Internal Service Fund
	Business-type activities- Enterprise funds				
	Sewer	Water	Other enterprise funds	Total	
CURRENT ASSETS					
Cash and investments	\$ 560,601	\$ 566,185	\$ 133,494	\$ 1,260,280	\$ 202,676
Receivables					
Accounts	90,255	98,617	-	188,872	-
Special assessments	250	-	-	250	-
Inventories	-	42,667	-	42,667	-
Total current assets	651,106	707,469	133,494	1,492,069	202,676
NONCURRENT ASSETS					
Restricted assets	245,803	101,956	-	347,759	-
Special assessments, less current portion	250	-	-	250	-
Capital assets, net					
Land and improvements	-	54,845	290,422	345,267	-
Water and sewer systems	5,859,881	3,559,292	8,553	9,427,726	-
Buildings	624,380	36,748	116,344	777,472	67,811
Equipment and furniture	174,655	25,031	-	199,686	765,097
Less accumulated depreciation	(2,730,044)	(1,084,200)	(94,702)	(3,908,946)	(567,305)
Capital assets, net	3,928,872	2,591,716	320,617	6,841,205	265,603
Access rights, net of amortization	219,471	-	-	219,471	-
Bond issue costs, net of accumulated amortization	32,251	21,516	-	53,767	-
Total noncurrent assets	4,426,647	2,715,188	320,617	7,462,452	265,603
Total assets	5,077,753	3,422,657	454,111	8,954,521	468,279
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES					
Accounts payable	14,414	75,581	2,129	92,124	904
Accrued expenses	2,910	3,613	631	7,154	761
Customer deposits	-	2,051	25,183	27,234	-
Deferred revenue	-	445,040	-	445,040	-
Bonds, capital leases and contracts, due within one year	87,000	25,000	-	112,000	-
Compensated absences, due within one year	2,841	5,546	167	8,554	960
Total current liabilities	107,165	556,831	28,110	692,106	2,625
NONCURRENT LIABILITIES					
Bonds, capital leases and contracts, less amounts due within one year	658,197	515,000	-	1,173,197	-
Compensated absences, less amounts due within one year	4,157	8,939	270	13,366	270
Total noncurrent liabilities	662,354	523,939	270	1,186,563	270
Total liabilities	769,519	1,080,770	28,380	1,878,669	2,895
NET ASSETS					
Invested in capital assets, net of related debt	3,183,675	2,051,716	320,617	5,556,008	316,362
Restricted for:					
Replacement	163,753	53,036	-	216,789	-
Debt service	82,050	48,920	-	130,970	-
Unrestricted	878,756	188,215	105,114	1,172,085	149,022
Total net assets	\$ 4,308,234	\$ 2,341,887	\$ 425,731	7,075,852	\$ 465,384
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				2,540	
Total net assets per government-wide financial statements				\$ 7,078,392	

The accompanying notes are an integral part of this statement.

City of Montague  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
 Proprietary Funds  
 For the year ended June 30, 2005

	Business-type activities- Enterprise funds				Governmental activities- Internal Fund
	Sewer	Water	Other enterprise funds	Total	
OPERATING REVENUES					
Charges for services	\$ 428,647	\$ 430,522	\$ 129,608	\$ 988,777	\$ 158,117
OPERATING EXPENSES					
Administration	73,044	85,695	24,291	183,030	-
Operations	167,221	169,985	30,627	367,833	94,129
Depreciation and amortization	139,602	82,679	12,385	234,666	61,654
Total operating expenses	379,867	338,359	67,303	785,529	155,783
Operating income	48,780	92,163	62,305	203,248	2,334
NONOPERATING REVENUES (EXPENSES)					
Investment income	19,271	8,580	3,011	30,862	4,285
Interest expense	(21,683)	(23,242)	-	(44,925)	(693)
Total nonoperating revenue (expenses)	(2,412)	(14,662)	3,011	(14,063)	3,592
Income before contributions and transfers	46,368	77,501	65,316	189,185	5,926
Capital contributions	-	365,414	-	365,414	-
Transfers out	-	-	(40,000)	(40,000)	-
Special item - gain on sale of equipment	-	-	481	481	-
Change in net assets	46,368	442,915	25,797	515,080	5,926
Total net assets at July 1, 2004	4,261,866	1,898,972	399,934		459,458
Total net assets at June 30, 2005	\$ 4,308,234	\$ 2,341,887	\$ 425,731		\$ 465,384
Adjustment to reflect the consolidation of Internal Service Fund activities related to enterprise funds				(1,158)	
Change in business-type activities in net assets per government-wide financial statements				\$ 513,922	

The accompanying notes are an integral part of this statement.

City of Montague  
**STATEMENT OF CASH FLOWS**  
 Proprietary Funds  
 For the year ended June 30, 2005

	Enterprise funds				Internal Service Fund
	Sewer	Water	Other enterprise funds	Total	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Receipts from customers	\$ 408,160	\$ 408,128	\$ 134,312	\$ 950,600	\$ 158,117
Receipts from interfund services provided	3,558	10,767	-	14,325	-
Payments to suppliers	(129,740)	(45,223)	(29,856)	(204,819)	(63,908)
Payments to employees	(96,178)	(143,645)	(23,757)	(263,580)	(29,788)
Internal activity—payments to other funds	(5,835)	5,835	-	-	-
Net cash provided by operating activities	179,965	235,862	80,699	496,526	64,421
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>					
Transfers to other funds	-	-	(40,000)	(40,000)	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Special assessment collections	(250)	-	-	(250)	-
Capital contributions	-	365,414	-	365,414	-
Purchases of capital assets	(24,229)	(410,079)	(4,602)	(438,910)	-
Principal and interest paid on capital debt	(102,075)	(36,964)	-	(139,039)	(11,588)
Proceeds from the sale of fixed assets	-	-	481	481	-
Increase in deferred revenue	-	133,295	-	133,295	-
Net cash provided by (used for) capital and related financing activities	(126,554)	51,666	(4,121)	(79,009)	(11,588)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>					
Investment income	19,271	8,580	3,011	30,862	4,285
Net increase in cash and investments	72,682	296,108	39,589	408,379	57,118
Cash and investments at July 1, 2004	733,722	372,033	93,905	1,199,660	145,558
Cash and investments at June 30, 2005	<u>\$ 806,404</u>	<u>\$ 668,141</u>	<u>\$ 133,494</u>	<u>\$ 1,608,039</u>	<u>\$ 202,676</u>
<b>Reconciliation of cash and investments to the balance sheet</b>					
Cash and investments	\$ 560,601	\$ 566,185	\$ 133,494	\$ 1,260,280	\$ 202,676
Restricted assets	245,803	101,956	-	347,759	-
	<u>\$ 806,404</u>	<u>\$ 668,141</u>	<u>\$ 133,494</u>	<u>\$ 1,608,039</u>	<u>\$ 202,676</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>					
Operating income	\$ 48,780	\$ 92,163	\$ 62,305	\$ 203,248	\$ 2,334
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation and amortization expense	139,602	82,679	12,385	234,666	61,654
Change in assets and liabilities					
Receivables, net	(16,431)	(11,627)	-	(28,058)	-
Intergovernmental receivables	7,779	-	-	7,779	-
Internal balances	(5,835)	5,835	-	-	-
Inventories	-	1,020	-	1,020	-
Accounts payables	6,039	66,552	771	73,362	472
Customer deposits	-	150	-	150	(39)
Accrued expenses	531	(910)	534	155	-
Deferred revenue	(500)	-	4,704	4,204	-
Net cash provided by operating activities	<u>\$ 179,965</u>	<u>\$ 235,862</u>	<u>\$ 80,699</u>	<u>\$ 496,526</u>	<u>\$ 64,421</u>
<b>Noncash financing activities</b>					
Assumption of additional County debt	\$ 17,037	\$ -	\$ -	\$ 17,037	\$ -

The accompanying notes are an integral part of this statement.

City of Montague  
**NOTES TO FINANCIAL STATEMENTS**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City of Montague (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**1. Reporting Entity**

The City of Montague (City) is a municipal corporation governed by an elected mayor and six-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

***Blended component units***

*Municipal Building Authority* - The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a debt service fund.

*White Lake Area Building Board* - The City appoints one-third of all Board members of the Building Board and approves its annual budget. The Building Board is reported as a special revenue fund.

*Montague Fire District* - The City appoints two-sevenths of all Board members to the Fire District and approves its annual budget. The Fire District is reported as a special revenue fund.

***Discretely presented component unit***

The discretely presented component units reported by the City include the Tax Increment Finance Authority (TIFA) and Downtown Development Authority (DDA). The TIFA and DDA boards are appointed by the City Council, but the boards, after election, operate as separate entities. The boards can authorize and issue debt independent from the City, but the City has in the past pledged the City's full faith and credit in support of the bonds issued. The TIFA and DDA are presented as governmental fund types.

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**2. Government-Wide and Fund Financial Statements—Continued**

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for money distributed by the State of Michigan for street maintenance.

The City reports the following two major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the county's sewage treatment plant.

The Water Fund operates the City's water distribution system.



City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**3. Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued**

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for equipment operations to other departments or agencies of the City, on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and of the City's internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

**4. Assets, Liabilities and Net Assets or Equity**

**a. Deposits and Investments**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition. All short-term cash surplus are maintained in a cash and investment pool and allocated to each fund based on month-end deposit and investment balances.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, and the City intends to hold the investment until maturity.

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**a. Deposits and Investments—Continued**

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

**b. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes. Taxes levied on July 1 are due without penalty on or before August 31. The property taxes attach as an enforceable lien on property as of July 1. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. Collection of delinquent personal property taxes as of March 1 remains the responsibility of the City Treasurer. Since substantially all City property taxes levied are current receivables, tax revenues are recognized when levied.

The 2004 taxable value for real/personal property of the City totaled \$70,583,005 of which \$7,535,074 was captured by the TIFA. The ad valorem taxes levied consisted of 16.75 mills for the City's operating purposes. These amounts are recognized in the respective General Fund and TIFA Fund.

**c. Inventories and Prepaid Items**

All inventories are valued at cost using the first-in/first-out(FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

City of Montague  
NOTES TO THE FINANCIAL STATEMENTS—CONTINUED  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**d. Restricted Assets**

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

**e. Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The City has elected to capitalize infrastructure assets using the prospective approach, from fiscal year 2004 forward.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Public domain infrastructure	20
System infrastructure and improvements	10-70
Machinery and equipment	5-20
Access rights	50

**f. Compensated Absences**

City employees are granted vacation and sick leave in varying amounts based on length of service. Employees must use earned vacation time in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of eight hours per month of employment up to 1,500 hours under the police contract and 1,200 hours for all other full-time City employees. Unused accumulated sick leave up to 30 days is paid at the employees' current rates to employees who resign and 60 days to employees who retire and have completed five continuous years of service with the City. A liability for sick pay is reported in the governmental funds only if the employee retires or resigns by the end of the fiscal year.

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued**

**4. Assets, Liabilities and Net Assets or Equity—Continued**

**g. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**h. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**i. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**1. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the capital projects funds, which adopt project-length budgets, and the permanent fund, which is not budgeted. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued**

**1. Budgetary Information—Continued**

- c. Not later than the second Monday in June, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

**NOTE C—DEPOSITS AND INVESTMENTS**

**Investment type.** The City invests certain funds in an external investment pool (Pool) required by bond covenants. The Pool is not regulated nor is it registered with the SEC. The Pool reports as of June 30, 2005, the fair value of the City's investments of \$9,378 is the same as the value of the Pool shares.

**Interest rate risk.** The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The weighted average maturity of the Pool is 21 days.

**Credit risk.** State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations (NRSROs). The City has no investment policy that would further limit its investment choices.

**Concentration of credit risk.** The City does not have a concentration of credit risk policy. Concentration of credit risk is the risk of loss attributed to the magnitude of the City's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

**Custodial credit risk - deposits.** In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2005, \$3,206,570 of the City's bank balance of \$3,953,240 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Custodial credit risk - investments.** The City does not have a custodial credit risk policy for investments. This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

**Foreign currency risk.** The City is not authorized to invest in investments which have this type of risk.

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE C—DEPOSITS AND INVESTMENTS—Continued**

**3. Restricted Assets**

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2005, restricted cash and investments in the Special Revenue and Enterprise funds are restricted as follows:

Special Revenue Fund	
Montague Fire District	
Equipment replacement	\$ 264,465
Enterprise funds	
Water Fund	
Repairs and replacement	53,036
Bond and interest redemption	48,920
Sewer Fund	
Repairs and replacement	163,753
Bond and interest redemption	<u>82,050</u>
	<u>\$ 612,224</u>

**NOTE D—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

The composition of interfund balances is as follows:

*Due to/from primary government and component units:*

<u>Receivable entity</u>	<u>Payable entity</u>	<u>Amount</u>	<u>Purpose</u>
Primary government - General Fund	Component unit - TIFA	\$ <u>80,958</u>	Construction/operations

*Interfund transfers:*

<u>Transfers out:</u>	<u>Transfers in:</u>			<u>Total</u>	<u>Purpose</u>
	<u>General Fund</u>	<u>Major Street Fund</u>	<u>Other governmental funds</u>		
General Fund	\$ -	\$ 90,500	\$ 188,000	\$ 278,500	Debt service, construction
Other governmental funds	4,054	15,000	-	19,054	Operations, construction
Other enterprise funds	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	Operations
	<u>\$ 44,054</u>	<u>\$ 105,500</u>	<u>\$ 188,000</u>	<u>\$ 337,554</u>	

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE E—CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005 was as follows:

**Primary Government:**

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
<b>Governmental activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 801,775	\$ -	\$ -	\$ 801,775
<b>Capital assets, being depreciated:</b>				
Land improvements	330,054	-	-	330,054
Buildings and other improvements	1,014,020	-	-	1,014,020
Machinery and equipment	1,518,595	42,134	-	1,560,729
Infrastructure	<u>772,408</u>	<u>175,993</u>	-	<u>948,401</u>
Total capital assets being depreciated	3,635,077	218,127	-	3,853,204
<b>Less accumulated depreciation for:</b>				
Land improvements	47,660	16,503	-	64,163
Buildings and other improvements	371,329	25,872	-	397,201
Machinery and equipment	713,161	107,578	-	820,739
Infrastructure	<u>-</u>	<u>38,621</u>	-	<u>38,621</u>
Total accumulated depreciation	<u>1,132,150</u>	<u>188,574</u>	-	<u>1,320,724</u>
Total capital assets, being depreciated, net	<u>2,502,927</u>	<u>29,553</u>	-	<u>2,532,480</u>
Capital assets, net	\$ <u>3,304,702</u>	\$ <u>29,553</u>	\$ -	\$ <u>3,334,255</u>
<b>Business-type activities:</b>				
<b>Capital assets, not being depreciated:</b>				
Land	\$ 73,200	\$ -	\$ -	\$ 73,200
<b>Capital assets, being depreciated:</b>				
Land improvements	272,067	-	-	272,067
Water and sewer systems	8,988,817	438,910	-	9,427,727
Buildings and other improvements	777,472	-	-	777,472
Machinery and equipment	<u>199,686</u>	-	-	<u>199,686</u>
Total capital assets, being depreciated	<u>10,238,042</u>	<u>438,910</u>	-	<u>10,676,952</u>
<b>Less accumulated depreciation for:</b>				
Land improvements	72,060	7,479	-	79,539
Water and sewer systems	3,068,626	171,872	-	3,240,498
Buildings and other improvements	377,316	18,962	-	396,278
Machinery and equipment	<u>185,305</u>	<u>7,327</u>	-	<u>192,632</u>
Total accumulated depreciated	<u>3,703,307</u>	<u>205,640</u>	-	<u>3,908,947</u>
Total capital assets, being depreciated, net	<u>6,534,735</u>	<u>233,270</u>	-	<u>6,768,005</u>
Capital assets, net	\$ <u>6,607,935</u>	\$ <u>233,270</u>	\$ -	\$ <u>6,841,205</u>

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE E—CAPITAL ASSETS—Continued**

**Primary Government:—Continued**

Depreciation expense was charged to functions/programs of the primary government as follows:

**Government activities:**

General government	\$ 30,986
Public safety	36,780
Public works	36,702
Culture and recreation	22,452
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>61,654</u>

Total depreciation expense - governmental activities \$ 188,574

**Business-type activities:**

Sewer	\$ 110,576
Water	82,679
Other enterprise funds	<u>12,385</u>

Total depreciation expense - business-type activities \$ 205,640

**NOTE F—BOND ISSUANCE COSTS**

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
<b>Bond issuance costs:</b>				
Sewer				
Issuance	\$ 34,161	\$ -	\$ -	\$ 34,161
Discount	1,884	-	-	1,884
Water				
Issuance	20,764	-	-	20,764
Discount	<u>2,456</u>	<u>-</u>	<u>-</u>	<u>2,456</u>
Total bond issuance cost	<u>59,265</u>	<u>-</u>	<u>-</u>	<u>59,265</u>
<b>Less amortization:</b>				
Sewer over 152 months	949	2,845	-	3,794
Water over 218 months	<u>426</u>	<u>1,278</u>	<u>-</u>	<u>1,704</u>
	<u>1,375</u>	<u>4,123</u>	<u>-</u>	<u>5,498</u>
Total bond issuance costs, net of accumulated amortization	<u>\$ 57,890</u>	<u>\$ (4,123)</u>	<u>\$ -</u>	<u>\$ 53,767</u>

**Amortization**

Amortization expense has been charged to the following functions:

Sewer	\$ 2,845
Water	<u>1,278</u>
	<u>\$ 4,123</u>



City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE G—DEFERRED REVENUE**

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the deferred revenue, which represented unearned revenue reported in the governmental funds were special assessments not yet available of \$2,467.

**NOTE H—LONG-TERM DEBT**

**Summary of Changes in Long-Term Liabilities**

The following is a summary of long-term liabilities activity for the City for the year ended June 30, 2005.

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due within one year
<b>Governmental activities:</b>					
General obligation bonds	\$ 315,000	\$ -	\$ 35,000	\$ 280,000	\$ 35,000
Capital leases	10,895	-	10,895	-	-
Compensated absences	<u>78,377</u>	<u>-</u>	<u>4,299</u>	<u>74,078</u>	<u>-</u>
Governmental activity					
Long-term liabilities	\$ <u>404,272</u>	\$ <u>-</u>	\$ <u>50,194</u>	\$ <u>354,078</u>	\$ <u>35,000</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ <u>1,366,400</u>	\$ <u>17,036</u>	\$ <u>98,239</u>	\$ <u>1,285,197</u>	\$ <u>112,000</u>

**Governmental activities:**

**General obligation bonds:**

\$490,000 Michigan Transportation Fund bonds  
of 1997 due in annual installments of \$35,000  
to \$50,000 through June 2012; plus interest at  
rates varying from 5.0% to 5.4% \$ 280,000

Compensated absences 74,078  
\$ 354,078

**Business-type activities:**

**Revenue bonds:**

\$555,000 Water Supply System refunding bonds  
of 2004 due in annual installments of \$25,000 to  
\$45,000 through May 2022; plus interest at rates  
varying from 2.25% to 5% \$ 540,000

\$665,000 Sewage Disposal System refunding bonds  
of 2004 due in annual installments of \$45,000 to  
\$65,000 through November 2016; plus interest at  
rates varying from 2% to 4% 650,000

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE H—LONG-TERM DEBT—Continued**

**Summary of Changes in Long-Term Liabilities—Continued**

**Business-type activities:—Continued**

**Revenue bonds:—Continued**

Muskegon County Wastewater Management

System No. 1 refunding bond of 2002 due in  
annual installments of \$31,431 to \$32,032 through  
July 2008; plus interest rates varying from 2.25%  
to 5%

\$ 95,197

\$ 1,285,197

The general obligation bonds are backed by the full faith and credit of the City.

The 1996 and 2002 County of Muskegon wastewater contracts payable represent agreements with Muskegon County relating to the construction of sewage treatment facilities. To construct these facilities, the County issued bonds which local municipalities are obligated to repay. The City has recorded the liability for its portion of the County bonds which are to be repaid by the access rights fee. Access rights are also recorded and are amortized over 50 years. The contractual obligation is secured by the full faith and credit of the City. Current debt service requirements are funded by sewer revenues.

Effective January 1, 2005, the wastewater service agreement between the County of Muskegon and thirteen local units, including the City of Montague, was amended to provide financial relief to the County's largest industrial user. Under terms of the amendment, the debt allocated to each local unit user will increase. The Sewer Fund's total debt obligation and annual payments on that obligation will increase by about 21 percent. The financial impact on the City in 2005 is \$4,106. These bonds will be fully retired in 2008. The estimated increase in future debt and interest payments for the City until retirement is \$18,161. Additional County wastewater debt is paid by local unit users through user charges based on metered sewage flows.

The 1996 and 2002 County of Muskegon wastewater contracts payable and the 2000 Water Supply revenue bonds are payable solely from the net revenues of the sewer and water supply directing the City to create funds restricted for use in the construction project and in debt service. Assets so restricted are detailed in note C3.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2005.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2005 follows:

Year ending June 30	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2006	\$ 35,000	\$ 14,500	\$ 112,000	\$ 44,900
2007	35,000	12,800	121,700	41,600
2008	35,000	11,000	111,400	38,300
2009	40,000	9,300	80,000	34,800
2010	40,000	7,200	90,000	32,700
2011-2015	169,078	7,835	405,000	123,900
2016-2020	-	-	275,000	53,100
2021-2022	-	-	90,097	6,665
Total	\$ <u>354,078</u>	\$ <u>62,635</u>	\$ <u>1,285,197</u>	\$ <u>375,965</u>

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE I—OTHER INFORMATION**

**1. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss in excess of insurance coverage can be reasonably estimated. There has been no loss in excess of insurance in the past three years.

**2. Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

**3. Post-Retirement Health Care**

The City has agreed to provide post-retirement health care to certain full-time employees after they reach age 55 and have 20 years of service or age 60 and have 10 years of service. The City will pay between 60 percent and 100 percent of the premium depending on the employee's age and length of service.

As of year end, there were two retired employees receiving benefits. The City finances the Plan on a pay-as-you-go basis. For the year ended June 30, 2005, the City's post-retirement health care cost under the Plan was approximately \$17,700.

**4. Grants**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the City expects such amounts, if any, to be immaterial.

**5. Jointly Governed Organization**

The City, in conjunction with other governmental entities, created the White Lake Solid Waste Authority (WLSWA) to operate a solid waste transfer station and the White Lake Ambulance Authority (WLAA) to provide ambulance services.

**6. Commitments**

During the year ended June 30, 2005, the City entered into an agreement for water line construction of approximately \$221,800. The remaining balance on the contract at June 30, 2005 was approximately \$14,300.

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE J—EMPLOYEE RETIREMENT SYSTEM AND PENSION PLAN**

*Plan Description.* The City of Montague is in an agent multiple-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan. The Plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to Plan members and beneficiaries. Act No. 427 of the Public Acts of 1984 of the State of Michigan assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; that authority rests with the City of Montague. A copy of the complete financial report and required supplemental information can be obtained by writing to:

City of Montague  
8778 Ferry Street  
Montague, MI 49437

*Funding Policy.* City employees are required to contribute 5 percent to the Plan. The City is required to contribute at an actuarially-determined rate depending upon position from 6.95 to 8.61 percent of covered wages.

*Annual Pension Cost.* For the year ended June 30, 2005, the City's annual pension cost was approximately \$67,400 which the City contributed. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8 percent investment rate of return (net of administrative expenses), (b) projected salary increases ranging from 0 percent to 4.5 percent, and (c) 4.5 percent per year compounded annually attributable to inflation. The actuarial value of plan assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period.

**Three-Year Trend Information**

*(Dollars amounts in thousands)*

<u>Year ending</u>	<u>Approximate Annual Pension Cost (APC)</u>	<u>Percent of APC contributed</u>	<u>Net Pension Obligation</u>
6/30/03	\$37	100%	\$ -
6/30/04	31	100	-
6/30/05	67	100	-

**REQUIRED SUPPLEMENTARY INFORMATION**

*Schedule of Funding Progress*

*(Dollars amounts in thousands)*

<u>Actuarial valuation date</u>	<u>Actuarial value of assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded ratio</u>	<u>Covered payroll</u>	<u>UAAL as a percentage of covered payroll</u>
12/31/02	\$1,394	\$1,728	\$334	81%	\$ 662	50%
12/31/03	1,538	1,905	367	81	721	51
12/31/04	1,684	2,114	430	80	707	61

City of Montague  
**NOTES TO THE FINANCIAL STATEMENTS—CONTINUED**  
June 30, 2005

**NOTE K—ECONOMIC DEPENDENCY**

State of Michigan shared revenues represent 13 percent of General Fund revenues.

The City's Water Supply Fund has a significant economic dependence on a local corporation that is a major taxpayer and user of water services. During the year ended June 30, 2005, the corporation's billings for water usage approximated 26 percent of total billings in the Water Supply Fund and 30 percent for property taxes.

**NOTE L—SUBSEQUENT EVENT**

During the next fiscal year the City anticipates the construction of a major street project. Expected costs are approximately \$73,400. The General Fund will fund the project.

The City has entered into a contract with the County of Muskegon for future sewer improvements to be financed at approximately \$357,000.

**NOTE M—EQUITY RESTATEMENT**

The governmental activities net assets were restated effective July 1, 2004. The net assets were restated to reflect an accrual of interest on notes receivable which was earned, and the balance of a note receivable inadvertently recorded in the TIFA fund in prior years.

	<u>Governmental activities</u>	<u>Tax Increment Finance Authority</u>
Net assets at July 1, 2004	\$ 4,868,338	\$ 298,706
Accrued interest adjustment	78,849	-
Note receivable	<u>305,000</u>	<u>(305,000)</u>
Net assets, at July 1, 2004, restated	\$ <u>5,252,187</u>	\$ <u>(6,294)</u>

## **REQUIRED SUPPLEMENTAL INFORMATION**

City of Montague  
REQUIRED SUPPLEMENTAL INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
General Fund  
For the year ended June 30, 2005

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 1,312,215	\$ 1,312,215	\$ 1,318,709	\$ 6,494
Licenses and permits	15,530	15,530	16,054	524
Intergovernmental revenues				
State	211,023	211,023	235,689	24,666
Local	1,325	1,325	1,335	10
Special assessments	1,434	1,434	3,187	1,753
Charges for services	67,934	67,934	63,183	(4,751)
Fines and forfeitures	9,500	9,500	6,363	(3,137)
Investment earnings	27,781	27,781	34,527	6,746
Other	28,000	85,717	77,371	(8,346)
Total revenues	1,674,742	1,732,459	1,756,418	23,959
EXPENDITURES				
Current				
General government				
Council	23,125	23,125	18,524	4,601
Administration	82,640	86,133	85,663	470
Administrative Assistant	55,650	55,650	54,382	1,268
Election Commission	8,255	8,255	3,265	4,990
Clerk	70,145	70,145	67,932	2,213
Equalization	16,150	18,000	17,970	30
Employee Safety Committee	550	550	379	171
Board of Review	1,386	1,386	745	641
Other	52,150	52,150	42,207	9,943
Treasurer	44,888	46,388	46,103	285
Computer/Xeroxing	13,150	13,150	20,456	(7,306)
Building and grounds	43,668	52,218	51,286	932
Community buildings	1,069	1,069	679	390
Parking lot	2,354	2,904	2,911	(7)
Cemetery	79,180	79,180	56,685	22,495
Public safety				
Public Safety	116,127	116,127	97,976	18,151
Police	478,132	478,132	467,976	10,156
Public works				
Public Works	65,162	65,162	67,363	(2,201)
Sidewalks	8,768	8,768	6,612	2,156
Sidewalk repair and construction	27,885	27,885	541	27,344
Economic development	3,500	3,500	2,500	1,000
Community and economic development				
Planning Commission	1,150	1,150	515	635
Zoning Board of Appeals	1,500	1,500	1,494	6
Culture and recreation				
Parks	85,339	91,799	95,675	(3,876)
Library	17,975	17,975	14,883	3,092
Other	13,218	13,218	10,302	2,916
Other governmental functions	88,726	96,726	65,075	31,651
Capital outlay	37,500	40,500	37,134	3,366
Total expenditures	1,439,342	1,472,745	1,337,233	135,512
Excess of revenues over (under) expenditures	235,400	259,714	419,185	159,471
OTHER FINANCING SOURCES (USES)				
Transfers in	43,000	43,000	44,055	1,055
Transfers out	(278,500)	(278,500)	(278,500)	-
Total other financing sources and uses	(235,500)	(235,500)	(234,445)	1,055
Net change in fund balance	\$ (100)	\$ 24,214	184,740	\$ 160,526
Fund balance at July 1, 2004			799,747	
Fund balance at June 30, 2005			\$ 984,487	

City of Montague  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**BUDGETARY COMPARISON SCHEDULE**

Major Street Fund  
For the year ended June 30, 2005

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues - state	\$ 167,915	\$ 167,915	\$ 165,134	\$ (2,781)
Charges for services	100	100	277	177
Investment earnings	1,000	1,000	1,643	643
Total revenues	169,015	169,015	167,054	(1,961)
EXPENDITURES				
Current				
Public works	132,761	134,061	111,798	22,263
Other governmental functions	36,783	45,783	11,666	34,117
Capital outlay	187,200	187,200	170,147	17,053
Total expenditures	356,744	367,044	293,611	73,433
Excess of revenues over (under) expenditures	(187,729)	(198,029)	(126,557)	71,472
OTHER FINANCING SOURCES				
Transfers in	188,000	188,000	188,000	-
Net change in fund balance	\$ 271	\$ (10,029)	61,443	\$ 71,472
Fund balance at July 1, 2004			172,823	
Fund balance at June 30, 2005			\$ 234,266	



## **OTHER SUPPLEMENTAL INFORMATION**

City of Montague  
**BALANCE SHEET**  
Other Governmental Funds  
June 30, 2005

		Special Revenue								Permanent Fund
	Total other governmental funds	Local Streets	Small Cities Grant Revolving	White Lake Area Building Board	Montague Fire District	Public Projects	Employee Benefit Plan	Capital Project	Debt Service	Cemetery Perpetual Care
<b>ASSETS</b>										
Cash and investments	\$ 593,185	\$ 110,158	\$ 76,183	\$ 32,925	\$ 58,494	\$ 17,807	\$ 72,242	\$ 50,355	\$ 7,374	\$ 167,647
Receivables	100,495	-	97,995	-	-	-	-	2,500	-	-
Due from other governmental units	21,017	21,017	-	-	-	-	-	-	-	-
Prepaid items	10,501	-	-	-	10,501	-	-	-	-	-
Restricted assets	264,465	-	-	-	264,465	-	-	-	-	-
Total assets	<u>\$ 989,663</u>	<u>\$ 131,175</u>	<u>\$ 174,178</u>	<u>\$ 32,925</u>	<u>\$ 333,460</u>	<u>\$ 17,807</u>	<u>\$ 72,242</u>	<u>\$ 52,855</u>	<u>\$ 7,374</u>	<u>\$ 167,647</u>
<b>LIABILITIES AND FUND BALANCES</b>										
Liabilities										
Accounts payable	\$ 6,521	\$ 213	\$ -	\$ 28	\$ 5,441	\$ -	\$ -	\$ 839	\$ -	\$ -
Accrued liabilities	19,687	753	-	399	18,535	-	-	-	-	-
Total liabilities	26,208	966	-	427	23,976	-	-	839	-	-
Fund balances										
Reserved for:										
Prepaid items	10,501	-	-	-	10,501	-	-	-	-	-
Notes receivable	97,995	-	97,995	-	-	-	-	-	-	-
Debt service	7,374	-	-	-	-	-	-	-	7,374	-
Replacement	219,795	-	-	-	219,795	-	-	-	-	-
Perpetual care	167,647	-	-	-	-	-	-	-	-	167,647
Unreserved:										
Designated										
Special revenue funds	116,912	-	-	-	44,670	-	72,242	-	-	-
Undesignated										
Special revenue funds	291,215	130,209	76,183	32,498	34,518	17,807	-	-	-	-
Capital project fund	52,016	-	-	-	-	-	-	52,016	-	-
Total fund balances	963,455	130,209	174,178	32,498	309,484	17,807	72,242	52,016	7,374	167,647
Total liabilities and fund balances	<u>\$ 989,663</u>	<u>\$ 131,175</u>	<u>\$ 174,178</u>	<u>\$ 32,925</u>	<u>\$ 333,460</u>	<u>\$ 17,807</u>	<u>\$ 72,242</u>	<u>\$ 52,855</u>	<u>\$ 7,374</u>	<u>\$ 167,647</u>

City of Montague  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES (DEFICIT)**  
Other Governmental Funds  
For the year ended June 30, 2005

		Special Revenue								Permanent Fund
	Total other governmental funds	Local Streets	Small Cities Grant Revolving	White Lake Building Board	Montague Fire District	Public Projects	Employee Benefit Plan	Capital Project	Debt Service	Cemetery Perpetual Care
REVENUES										
Licenses and permits	\$ 60,960	\$ -	\$ -	\$ 60,960	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues										
Federal	24,413	-	-	-	-	-	-	24,413	-	-
State	72,676	72,676	-	-	-	-	-	-	-	-
Charges for services	197,752	-	-	9,729	167,548	17,350	-	-	-	3,125
Investment earnings	23,874	2,458	8,327	1,040	4,787	602	1,716	711	178	4,055
Other	3,996	-	-	-	1,996	-	-	2,000	-	-
Total revenues	383,671	75,134	8,327	71,729	174,331	17,952	1,716	27,124	178	7,180
EXPENDITURES										
Current										
Public safety	122,824	-	-	-	122,824	-	-	-	-	-
Public works	143,030	49,495	14,527	79,008	-	-	-	-	-	-
Other governmental functions	5,447	5,447	-	-	-	-	-	-	-	-
Debt service										
Principal	35,000	-	-	-	-	-	-	-	35,000	-
Interest and fees	17,765	-	-	-	-	-	-	-	17,765	-
Capital outlay	11,074	-	-	-	5,000	-	-	6,074	-	-
Total expenditures	335,140	54,942	14,527	79,008	127,824	-	-	6,074	52,765	-
Excess of revenues over (under) expenditures	48,531	20,192	(6,200)	(7,279)	46,507	17,952	1,716	21,050	(52,587)	7,180
OTHER FINANCING SOURCES (USES)										
Transfers in	105,500	-	-	-	-	-	-	55,000	50,500	-
Transfers out	(19,055)	-	-	-	-	(15,000)	-	-	-	(4,055)
Total other financing sources (uses)	86,445	-	-	-	-	(15,000)	-	55,000	50,500	(4,055)
Net change in fund balances	134,976	20,192	(6,200)	(7,279)	46,507	2,952	1,716	76,050	(2,087)	3,125
Fund balances (deficit) at July 1, 2004	828,479	110,017	180,378	39,777	262,977	14,855	70,526	(24,034)	9,461	164,522
Fund balances at June 30, 2005	\$ 963,455	\$ 130,209	\$ 174,178	\$ 32,498	\$ 309,484	\$ 17,807	\$ 72,242	\$ 52,016	\$ 7,374	\$ 167,647

City of Montague  
**STATEMENT OF NET ASSETS**  
Other Enterprise Funds  
June 30, 2005

ASSETS

	Enterprise Funds		
	Total other enterprise funds	Boat launching ramp	Campground
CURRENT ASSETS			
Cash and investments	\$ 133,494	\$ 72,585	\$ 60,909
NONCURRENT ASSETS			
Capital assets			
Land and improvements	290,422	120,890	169,532
Systems	8,553	-	8,553
Buildings	116,344	116,344	-
Less accumulated depreciation	(94,702)	(78,430)	(16,272)
Total noncurrent assets	320,617	158,804	161,813
Total assets	454,111	231,389	222,722
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable	2,129	255	1,874
Accrued liabilities	631	631	-
Deferred revenue	25,183	-	25,183
Compensated absences, due within one year	167	167	-
Total current liabilities	28,110	1,053	27,057
NONCURRENT LIABILITIES			
Compensated absences, less amounts due within one year	270	270	-
Total liabilities	28,380	1,323	27,057
NET ASSETS			
Invested in capital assets, net of related debt	320,617	158,804	161,813
Unrestricted	105,114	71,262	33,852
Total net assets	\$ 425,731	\$ 230,066	\$ 195,665

City of Montague  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS**  
 Other Enterprise Funds  
 For the year ended June 30, 2005

	Total other enterprise funds	Boat launching ramp	Campground
REVENUES			
Charges for services	\$ 129,608	\$ 39,941	\$ 89,667
OPERATING EXPENSES			
Administration	24,291	6,723	17,568
Operations	30,627	10,548	20,079
Depreciation	12,385	6,962	5,423
Total operating expenses	67,303	24,233	43,070
Operating income	62,305	15,708	46,597
NONOPERATING REVENUES			
Investment income	3,011	1,501	1,510
Income before transfers and special items	65,316	17,209	48,107
Transfers out	(40,000)	-	(40,000)
Special item - gain on sale of equipment	481	-	481
Change in net assets	25,797	17,209	8,588
Total net assets at July 1, 2004	399,934	212,857	187,077
Total net assets at June 30, 2005	\$ 425,731	\$ 230,066	\$ 195,665

City of Montague  
**STATEMENT OF CASH FLOWS**  
Other Enterprise Funds  
For the year ended June 30, 2005

	Enterprise Funds		
	Total other enterprise funds	Boat launching ramp	Campground
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 134,312	\$ 39,941	\$ 94,371
Payments to suppliers	(29,856)	(10,453)	(19,403)
Payments to employees	(23,757)	(6,189)	(17,568)
Net cash provided by operating activities	80,699	23,299	57,400
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	(40,000)	-	(40,000)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Purchases of capital assets	(4,602)	-	(4,602)
Proceeds from the sale of fixed assets	481	-	481
Net cash used for capital and related financing activities	(4,121)	-	(4,121)
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>			
Investment income	3,011	1,501	1,510
Net increase in cash and investments	39,589	24,800	14,789
Cash and investments at July 1, 2004	93,905	47,785	46,120
Cash and investments at June 30, 2005	<u>\$ 133,494</u>	<u>\$ 72,585</u>	<u>\$ 60,909</u>
<b>Reconciliation of operating income to net cash provided by operating activities</b>			
Operating income	\$ 62,305	\$ 15,708	\$ 46,597
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation expense	12,385	6,962	5,423
Change in assets and liabilities			
Accounts payables	771	95	676
Deferred revenue	4,704	-	4,704
Accrued expenses	534	534	-
Net cash provided by operating activities	<u>\$ 80,699</u>	<u>\$ 23,299</u>	<u>\$ 57,400</u>